



Planning Financial Security

for the family

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Planning Financial Security for the Family

By Mabel Spray

Extension Specialist, Family Economics

Financial or economic security varies in meaning to different families. To some it means being free of debt. To others it means protection during old age -- to retire with an income that will provide more than the bare necessities of life.

To others such security is protection for dependents in case of death. To another group it means being able to meet emergency expenses, such as sickness and accidents. To still others the accumulation of real estate and personal property means financial security. To most families financial security means a combination of several of these items.

It is desirable to make plans for most of life's activities, even though the plans alone do not insure success. Building a security program is something like building a house. Planning and making blueprints for a house do not build it, but no builder would start on a house without a blueprint and a knowledge of the materials and tools needed to complete it.

Even well made plans may not be carried out entirely as made. Nevertheless, with the necessary adjustments they still can serve as guides in building your security program. You will be able to develop a better security plan if you know something about the various types of insurance, social security, bonds, annuities, and other savings and investments.

It is not the purpose of this bulletin to discuss types of savings and investments. Good material is available from many sources on these subjects. This bulletin is to provide a guide and some tools a family can use to plan for acquiring financial security.

Determine Objectives of Security Program

The first step in planning a financial security program is for the family to define their goals or objectives. These will vary for different families. A study of the following list of possible objectives may help you determine your own:

1. Protection for dependents if the earning capacity of the breadwinner is curtailed by death or disability.

2. Replacement of income after retirement.
3. Ability to meet temporary loss of or a decrease in income.
4. Ability to meet emergencies.
5. Protection against liability.
6. Building up productive capacity of the farm or business.
7. Avoid financial loss by having proper legal arrangements.

These are quite general goals. You will want to be specific in what your family wants to accomplish.

Study Your Situation

No two families are alike. Take a good look at your family's financial position. Then, answer for yourself questions concerning the following points:



1. Size of family.
2. Age of parents, age and sex of children.
3. Family pattern of living.
4. Long time goals for which you need to do so more saving.
5. Stability of income. Are there prospects for income changes?
6. Means of financial security you now have and the protection each offers.
7. Additional security needed. What kinds are available? Which will meet your needs? Will a combination of several offer more security. Are you buying more than you can afford?

8. Management limitations of the family.
9. Risks you can afford and are willing to take.
10. Possibilities for developing skills and abilities of family members.
11. The present position of the family in regard to availability and use of capital.
12. Comparative value of investments in the business and in other forms of investments. Which will give greatest security?
13. The major risks or hazards that may occur. Can good management reduce the risks?
14. Legal status of family business in relation to wills, titles, inheritance, etc.

To help with your plans, the table "Financial Means that Contribute to Family Financial Security" is included. Neither the list of financial means nor the list of objectives is complete. The check marks following the particular type of financial means indicate that it contributes to the objectives under which the mark occurs. For example: family income plan life insurance will give protection against income loss by death or disability, help meet emergencies and provide some retirement income.

FINANCIAL MEANS THAT CONTRIBUTE TO FAMILY FINANCIAL SECURITY

| FINANCIAL MEANS | OBJECTIVES | | | | | | | |
|--|---------------------------------|--------------------------------------|---|------------------------|----------------------|-------------------------|--|--|
| | Protect Income Loss by Death | Protect Income Loss by Disability | Temporary Loss or De- crease in Income | Meeting Emergencies | Retirement Income | Liability Protection | Building Productive capacity of Farm or Business | Avoid Financial Loss Through Proper Legal Arrangements |
| Social Security | x | x | | | x | | | |
| Annuities, Pensions, and Retirement Plans | x | | | | x | | | |
| Insurance | | | | | | | | |
| Life | x | | | | | | | |
| Term | | | | | | | | |
| Straight Group Industrial | x | x | | x | | | | |
| Family Income Plan | x | | | x | x | | | |
| Limited Payment | x | x | | x | | | | |
| Endowment | x | x | | x | x | | | |
| Workmen's Compensation | x | x | | x | | | | |
| Health and Accident | x | x | | x | | | | |
| Hospitalization | | | | x | | | | |
| Fire | | | | x | | | | |
| Liability | | | | x | | x | | |
| Auto Casualty | | | | x | | | | |
| Crop and Livestock | | | x | | | | | |
| Unemployment Compensation | | | x | | | | | |
| Reducing debt | x | x | x | x | | | | |
| Increasing Equity | x | x | x | | x | | | |
| Liquid Assets | | | | | | | | |
| Cash on Hand | x | x | x | x | x | | x | |
| Savings Account | x | x | x | x | x | | x | |
| Bonds - Govt. | x | x | x | x | x | | x | |
| Other | x | x | x | x | x | | x | |
| Legal Arrangements | | | | | | | | |
| Making a Will | x | | | | | | | x |
| Proper Title Arrg. For Property | x | | | | | | | x |
| Credit Rating | | | | x | | | x | |
| Reorganization of Farm or other Business | | x | x | | x | | x | |

Make a Plan for Action

The next step in making your financial security plan is to inventory what you already have, what you need and what it will take to get what you want.

The plan, of course, includes a listing of objectives as discussed in step one. What you have also includes net income and the amount left after essential family living expenses have been provided. This is important in planning.

Make a list of all the things you have or are paying for now that contribute toward your objectives. These include social security, insurance, and both financial and physical assets which can be used to provide funds or income at some future time. What are you putting into each in terms of dollars? What protection does it offer now and in the future?

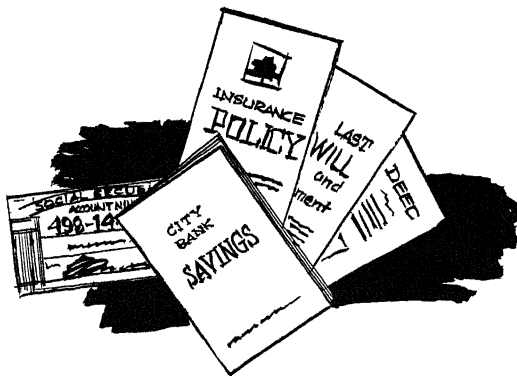
You may want to list these in terms of what they would provide in case of retirement. Although your immediate goal may be protection of income in case of early death of the breadwinner, a well planned program will provide retirement income in later years.

Most families interested in planning for financial security feel the need for more than they have. Part of the plan is listing the additional financial means that would provide the security you want. Changes in what you already have may be part of the solution. For example: term insurance used by a young family might be replaced by another type of insurance after debts have been greatly reduced.

This part of the plan requires much study and some consideration of future responsibilities and economic conditions. One trend, in the past few years, has been an increase in prices. As a result dollars are worth less.

If this trend continues, it will take more dollars in the future than now to provide the same kind of living. There is no magic formula to determine how much money will be needed to provide financial security.

What you need to do may be obvious after you determine your objectives and study the situation, but you may want more specific information to help you make your decisions. For example: you may need more information on the different kinds of insurance and the advantages and costs of each. You may also wonder how you qualify for social security or company retirement plans and the benefits you can expect. Another point of interest may be laws concerning wills, titles and inheritance.



In addition to such factual information a family may need help in learning some of the sound principles of financial management. It may want to know how to make better estimates of future income and better plans for farm and family living expenses, or how to determine the amount of credit to use. Another important consideration is sound practices in investing surplus money available for that purpose.

There are many books and pamphlets which give information on financial subjects. Some families may find it important to obtain professional counsel from bankers and other leaders, attorneys, insurance agents and investment counselors.

Here are some sources of reliable information:

1. The state and local bar association.
2. Social Security Administration -- U.S. Department of Health , Education and Welfare.
3. Local Social Security administration representative.
4. The Institute of Life Insurance.
5. Local insurance agencies.
6. State commissioner of insurance
7. Local county Extension agents.
8. Federal and state Extension publications on insurance, estate planning and social security.
9. Production Credit Administration and Farmers Home Administration personnel.

10. Local library.
11. Stock broker.
12. Bankers.

In most cases the income left after business and family expenses are paid will not be enough to provide the full amount of protection desired. It is usually necessary to choose between present needs and protection.

Usually the amounts being spent for financial security can, with no increase, be reallocated to improve the program. Sometimes the amounts being spent to provide minimum security must be increased.

It may be that future security or the avoidance of financial difficulty can be provided at little or no extra cost. This includes the making of a will to provide for dependents, designating the beneficiaries and payment conditions of existing insurance policies and arranging of titles to both real and personal property so as to cause the least difficulty in settling estates, paying inheritance taxes and making other legal transactions.

Write down what seems to be the best plan, including changes and additions. If all cannot be done immediately, some decisions should be made of the order in which things will be done.

Carry Out Your Plan

If the cost of security plans would exceed funds available, you will need either to decrease the security program to fit the budget or to make other adjustments in the budget. As resources become available you can add those things that had to be postponed.

If the amount of money available for security and savings is greater than you are now investing, re-examine your security program. If it is adequate, study ways of using the surplus to return the most as an investment. For instance you might decide that the surplus would be more wisely spent on advance payment of insurance premiums.

Two good places to start strengthening your security programs are with those acts that cost little or no money and those where you are taking the greatest risk.

An example of increasing financial security at low cost is drawing up a will. The value of a will to members of the family, if the breadwinner dies, may be great as compared to the fee charged for drawing up the will.

An example of increasing protection against risk at low cost is doubling the amount of liability insurance carried on your automobile. The cost is small. Damages awarded today in automobile accident cases may be large enough to wipe out all the property the family owns, if inadequate insurance is carried.

Evaluate and Change Your Plan

What seems to be an adequate plan for financial security today may be inadequate in another year. The plan should be reviewed and brought up to date frequently, as circumstances change.

At an early stage in the family development, securing capital for the farm or other business may be one of the problems. It is in this stage that capital may be borrowed, and the need for protection against loss of income by death may be given priority by the family.

As the family grows older and larger in numbers, the financial strain increases until the children's educational needs are met and the family unit begins to decrease in size. At this point in the family cycle, the parents are usually in a better financial position. There is greater equity in the business, and family living needs are smaller. The extra finances available at this time can be used toward obtaining retirement security.

During the early and middle stages of the family cycle, title to property should be checked, wills should be made, and fire, crop, health and accident insurance might well be considered. Term insurance with provisions to convert to other types of ordinary life insurance would give the family protection at minimum cost during what may be a critical time.

The farther into the future a family tries to anticipate the situation, the less accurate the predictions can be.

Example of a Family Financial Security Plan

The following pages illustrate how a family may use the work sheets in planning. The family involved is a medium income farm family. (A non-farm family would differ in source of income, interests and abilities of family members, goals relative to real estate ownership, need for capital investment, etc. The process of planning is the same regardless of the type of family.)

The family consists of:

| | |
|-------|--------------|
| Jim | 40 years old |
| Ellen | 38 years old |
| John | 17 years old |
| Mary | 14 years old |
| Jane | 12 years old |
| Paul | 10 years old |

Family Assets are:

| | |
|------------------------------|----------|
| 180-acre farm valued | \$20,000 |
| Livestock, machinery, equip. | 15,000 |
| Government bonds | 3,000 |
| Cash in the bank | 2,000 |

The debts of a five-year loan of \$4,000.

Financial items for the past year:

| | |
|--|-----------------|
| Gross farm income | \$14,585 |
| Farm expenses | 8,991 |
| Net income | <u>5,594</u> |
| Income tax | 270 |
| Income for family living savings and investment | <u>\$ 5,324</u> |

Family goals or objectives include the following:

1. To protect dependents if Jim's earning power is lost.
2. To pay off the \$4,000 loan in the scheduled 5 years.
3. To avoid financial loss through proper legal arrangements.
4. To provide a fund for emergencies.

5. To provide for a college education for each child and music lessons for those desiring them. (Three are taking lessons.)
6. To increase net income.
7. To provide adequate retirement income.
8. To modernize the home -- build a bedroom and a half bath downstairs.
9. To buy new furniture for living room.
10. To take a vacation (a week or more) off the farm each year.
11. To maintain and protect production capacity of the farm.

This is a family operated farm. The capital position of the family is good. Jim and Ellen are joint owners and have a clear title to the property. The living standards are rising as the children grow up. All are in good health.

All members of the family like to farm. However John is interested in engineering, too. All of the children are 4-H members. The boys have livestock projects. If something should happen to Jim, Ellen and the children can continue the farm operation.

There is a possibility that Paul might be taken into a partnership in the future. In the meantime he may contribute toward his college fund by growing Christmas trees. It is not practical to increase the dairy unless more land can be rented. The poultry flock could be increased.

An Example

A Work Sheet for Developing

Our Family Financial Security Plan

A. Income

| | |
|---|----------------------|
| Net Annual Family Income | \$5324 ⁰⁰ |
| Annual Family Living Costs Exclusive of Security Investments | 3200 ⁰⁰ |
| Amount Available for Security Program | 2124 ⁰⁰ |

B. Objectives We Have for Our Financial Security Program

1. To pay off \$4000 loan in five years.
2. To protect dependents if earning power of breadwinner is lost.
3. To provide a fund for emergencies.
4. To avoid loss by having proper legal arrangements.
5. To provide an adequate retirement fund.
6. To protect the equity in the farm business.
7. To educate the children as they desire.
8. To have a modern, comfortable home.

C. Our Present Program

| Means We Have | Amounts going into it the past year. | Value Now | Value in case of death of breadwinner | Value at retirement of breadwinner |
|-------------------------------------|--------------------------------------|---------------------------------------|---|---|
| Cash in bank | \$200 ⁰⁰ | operating capital \$200 ⁰⁰ | \$2000 ⁰⁰ | Keep at this level \$2000 ⁰⁰ |
| Government Bonds | 500 ⁰⁰ | 3000 ⁰⁰ | 3000 ⁰⁰ | will be used for college & insur. \$5000 ⁰⁰ est. |
| Equity in Farm | 920 ⁰⁰ | 31,000 ⁰⁰ | \$31,000 ⁰⁰ less inheritance tax | 35,000 ⁰⁰ |
| Social Security | 180 ⁰⁰ | none | \$155 plus \$3048 income tie Paul is 18 \$228 2/3 yrs. \$2288 income (el Paul is 18 \$1524 yrs. 18 work time) | |
| Straight Life Insurance | 180 ⁰⁰ | cash value 2000 ⁰⁰ | 10,000 | \$7000 ⁰⁰ cash value |
| Liability and collision ins. on car | 80 ⁰⁰ | to deduct as liability | — | — |
| Hospitalization | 60 ⁰⁰ | 5 weeks hospital care | — | — |
| Wind & Fire Ins. | 100 ⁰⁰ | protects up to \$16,000 ⁰⁰ | — | — |
| Liability ins. on farm | 73 ⁰⁰ | protects up to \$30,000 ⁰⁰ | — | — |
| Total | \$2,293 ⁰⁰ | \$38,000 ⁰⁰ | \$46,000 ⁰⁰ less tax \$3048/yr income | \$44,000 ⁰⁰ + \$2288/yr income |

E. Plan We Hope to Put Into Effect

| Means to Which we are committed | Annual Cost | Immediate Value | Value in case of death of breadwinner | Value at retirement of breadwinner |
|--|-------------|--|---|------------------------------------|
| Farm Loan \$4,000 \$800 + interest each of next 5 yrs. | \$920.00 | \$31,200 | \$31,800 less tax | \$35,000 |
| Social Security | \$180.00 | — | \$255 plus, \$3048 income, 1/2 Paul's income, 1/2 Paul's income | \$2288 income |
| Continue Life Ins. | \$180.00 | 2,000 | 10,000 | 7,000 |
| Increase Liability on car | \$90.00 | \$50 deduct, 50-100 liability, protects up to 30,000 | — | — |
| Continue Liability on Farm | \$73.00 | — | — | — |
| Change hospitalization to Major Medical Plan Insurance | \$95.00 | protects up to \$150 - \$50 deductible | — | — |
| Continue Fire & Wind Insurance | \$100.00 | protects up to \$10,000 | — | — |
| | | | | |
| | | | | |
| | | | | |
| Total | \$1648.00 | \$33,200 + protection | \$41,800 + annual income | \$42,000 + annual income |

| Other Assets We Have | Annual Cost | Immediate Value | Value in case of death of breadwinner | Value at retirement of breadwinner |
|----------------------|-------------|---|---------------------------------------|------------------------------------|
| Government Bonds | | provides emergency fund. will be used for \$3,000 college | \$3,000 | — |
| Bank Balance | | \$2,000 | \$2,000 | — |
| | | | | |
| | | | | |
| Total | | \$5,000 | \$5,000 | |

Amount of annual income available for Financial Security Program \$2124.00
Amount Committed annually for Financial Security Program . . . 1648.00
Balance available this year 476.00

Plans for using the balance or making up the deficit this year:

Have wills written \$20.00
Plant Christmas trees 100.00
Remodel house 356.00
(take \$1124.00 out of bank account) \$476.00
That leaves \$876 for bank balance \$2000
-1124
\$876

For Easier Planning

You may prepare similar forms on sheets of paper large enough for easy use. Adjust the headings to meet your family needs and objectives. It takes pencil and paper work to develop a plan which has meaning and value for you.

Answers for Your Questions

Other Extension publications which may help you with your financial program are Bulletin 381, "Consumer Credit," and Bulletin 384, "Planning Family Spending." These and other publications in family economics and management are available at your county Extension Service Office.